

ORIGINAL
FILE

RECEIVED

Before the
FEDERAL COMMUNICATIONS COMMISSION

MAR 21 1991

credits.² Of course, Western Electric tax credits no longer are available to LECs. In addition, the Commission found that AT&T could and did fund a significant portion of its construction program with the proceeds from short-term borrowing. No such findings have been made with regard to the LEC construction programs.

Of greater importance, the Docket No. 19129 decision, which was not appealed by AT&T, contained a significant logical flaw in its analysis of the treatment of long term plant under construction. For example, the Commission assumed that AT&T could fund most of its construction program with short-term borrowing. It therefore decided that AT&T should accrue AFUDC at the prime rate.³ However, when the Commission calculated the overall cost of capital of AT&T in Phase I of Docket 19129, it assumed that short term debt was available to fund other corporate operations.⁴ In effect, the Commission counted low-cost, short-term debt twice in Docket No. 19129. BellSouth therefore agrees with Ameritech that the Commission should institute a rulemaking proceeding to establish a consistent, logical rule with regard to the regulatory treatment of Account 2004.

²Docket No. 19129 Order, at 58.

³Docket No. 19129 Order at 59-60.

⁴In the Matter of American Telephone & Telegraph Company and the Associated Bell System Companies Charges for Interstate Telephone Service, Transmittal Nos. 10989 and 11027, Docket No. 19129 (Phase I), Decision and Order, 38 F.C.C. 2d 213, 229-230 (1972).

The Commission should recognize that capital is fungible. Under the Commission's Part 65 Rules, the overall rate of return is established giving due consideration to all sources of capital, including short-term debt and commercial paper. Since all sources of capital are considered in calculating the overall rate of return, there is no short-term debt available to dedicate to funding construction.

BellSouth also agrees with the point made by Ameritech that the present Commission policy discourages long-term construction projects by preventing investors from recovering the full cost of capital associated with such projects. This creates an incentive to avoid the type of major construction projects that foster infrastructure development, an avowed goal of the Commission. Sound regulatory treatment of Account 2004 would benefit consumers, and would provide equitable treatment of investors.

In Docket No. 19129, the Commission recognized that there are three alternative methods generally utilized by regulatory commissions in providing compensation to investors for capital invested in plant before it goes into service. BellSouth recommends that the Commission consider each of these alternatives in the proposed rulemaking proceeding.

First, the Commission should consider including

Account 2004 in rate base, and not capitalizing AFUDC. As Ameritech shows in Attachment A to its petition for rulemaking, this method results in the lowest cost to consumers over the life of the assets being constructed. If this method is elected by the Commission, an exogenous cost adjustment would be required for price cap carriers coincident with the change in methods.

Second, the Commission could include Account 2004 in rate base and include interest during construction in income for ratemaking purposes. The amount of such interest during construction would then be added to construction work in progress to be included in utility plant when the construction work in progress is placed in service. This method insures investors of full recovery of the capital devoted to utility service, but defers recovery of cash from customers until the plant goes into service. If the Commission continues to capitalize interest during construction at the prime rate, including Account 2004 in ratebase would mitigate the adverse impact of that policy on the carriers, and would eliminate the present double-counting of short-term debt in interstate ratemaking.

The third method, and the one proposed in the Ameritech petition for rulemaking, is to continue to exclude Account 2004 from rate base, but to capitalize AFUDC at the overall rate of return. This method is an improvement over the current method in that it permits full recovery of the cost

of capital by investors, albeit on a deferred basis.⁵ However, deferral until plant goes into service of recovery of a return on investment devoted to long-term construction results in higher overall costs to consumers than the first and second methods discussed above. It also reduces the quality of earnings of the carrier by deferring cash recovery of the return on prudently invested capital.

BellSouth urges the Commission to consider all three of these methods in a rulemaking proceeding. Each of these methods relieves the patent inequity for carriers that exists under the Commission's present rules governing capitalization of AFUDC.

Respectfully submitted,

BELLSOUTH CORPORATION,
SOUTH CENTRAL BELL
TELEPHONE COMPANY, and
SOUTHERN BELL TELEPHONE
AND TELEGRAPH COMPANY

By their Attorneys:



William B. Barfield
M. Robert Sutherland
1155 Peachtree Street, N.E.
Suite 1800
Atlanta, Georgia 30367

Phone: (404) 249-2647

March 21, 1991

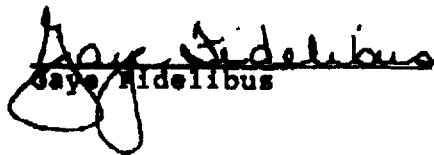
⁵This method is used by the FERC in dealing with long-term construction in the electric utility industry. See, 18 CFR Part 101, Electric Plant Instructions, para. 3A(17), page 324.

CERTIFICATE OF SERVICE

I hereby certify that I have this 21st day of March, 1991, serviced all parties to this action with a copy of the foregoing COMMENTS SUPPORTING PETITION FOR RULEMAKING by placing a true and correct copy of same in the United States mail, postage prepaid, addressed to:

Floyd S. Keene
Michael S. Pabian
30 South Wacker Drive
39th Floor
Chicago, Illinois 60606

Alfred Winchell Whittaker
Kirkland & Ellis
655 Fifteenth Street, N.W.
Suite 1200
Washington, D.C. 20005


Jaye Adelinebus